DOCUMENT RESUME

ED 373 236 CE 067 070

TITLE	Risk Management. Unit 20. Level 2. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 302-20.
INSTITUTION	Ohio State Univ., Columbus. Center on Education and Training for Employment.
PUB DATE	94
NOTE	29p.; For the complete set, i.e., 21 units, each done at three levels, see CE 067 029-092. Supported by the International Consortium for Entrepreneurship Education, the Coleman Foundation, and the Center for Entrepreneurial Leadership Inc.
AVAILABLE FROM	Center on Education and Training for Employment, 1900 Kenny Road, Columbus, OH 43210-1090 (order no. RD302-20 IG, instructor guide $4.50; RD302-20 M, student module, $3; student module sets, level 1--RD301M, level 2--RD302M, level 3--RD303M, $45 each; instructor guide sets, level 1--RD301G, level 2--RD302G, level 3--RD303G, $75 each; 3 levels and resource guide, RD300G, $175).
PUB TYPE	Guides - Classroom Use - Teaching Guides (For Teacher) (052) -- Guides - Classroom Use - Instructional Materials (For Learner) (051)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Accident Prevention; Behavioral Objectives; *Business Education; *Competency Based Education; Crime Prevention; Decision Making; *Entrepreneurship; Insurance; Learning Activities; Postsecondary Education; *Risk; *Risk Management; Secondary Education; *Small Businesses; Student Evaluation; Teaching Guides
IDENTIFIERS	*Program for Acquiring Competence Entrepreneurship; Shoplifting

ABSTRACT

This instructor guide for a unit on risk management in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: risk management; risk managers' duties; crimes causing losses for small businesses; the effects of shoplifting on small businesses; shoplifting techniques and prevention; procedures for apprehending shoplifters, reducing losses from bad checks, protecting against counterfeit currency, reducing vendor theft, reducing vulnerability to burglary and robbery, handling and controlling internal theft, preventing accidents and lawsuits; and types of insurance. (MN)

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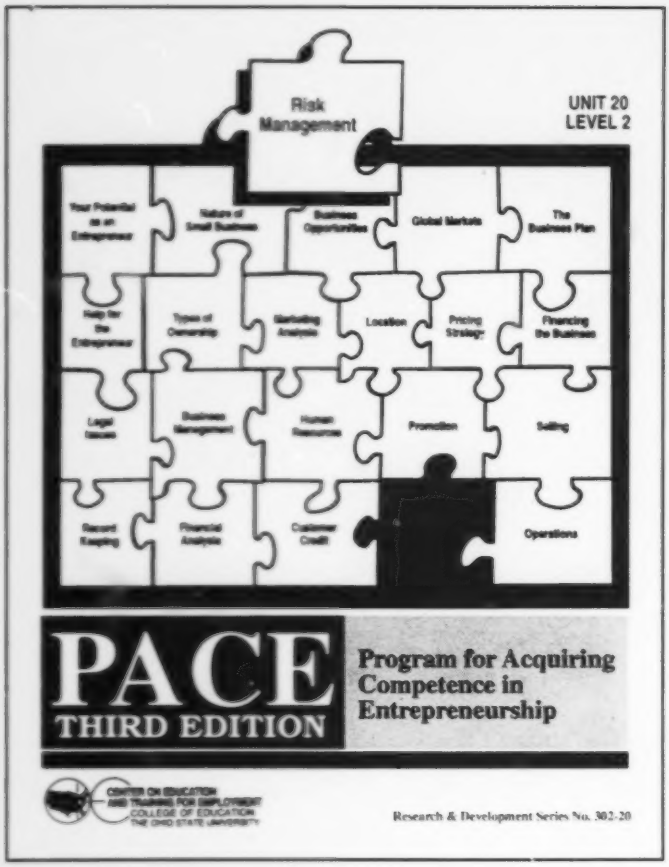

INSTRUCTOR GUIDE

Unit 20

Risk Management

Level 2

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlin s provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives:

- Explain the responsibility of the entrepreneur in risk management.
- Identify various protective measures that can help minimize shoplifting.
- Determine procedures that can be used to reduce the amount of losses from internal theft.
- Identify procedures that can be used to reduce the amount of bad check or counterfeit currency losses.
- Discuss how to secure business premises against burglary and robbery.
- Discuss how accidents and lawsuits can be prevented.
- List the different types of business insurance policies available.

CE 067 070

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Objectives	Teaching Suggestions
1. EXPLAIN THE RESPONSIBILITY OF THE ENTREPRENEUR IN RISK MANAGEMENT	
What are the duties of a risk manager?	Review the task list for identifying risks, and lead a general discussion about them. Discuss the concepts of over- and under-insuring a business.
What crimes most often cause losses for small businesses?	Discuss the crimes included in the text and challenge the class to add to this list.
2. IDENTIFY VARIOUS PROTECTIVE MEASURES THAT CAN MINIMIZE SHOPLIFTING	
How does shoplifting affect small businesses?	Point out the staggering nature of the financial consequences of shoplifting for retailers. Illustrate how shoplifting, and shoplifting protection escalates the cost of goods.
What are the most commonly used shoplifting techniques?	If a small business owner is to prevent the losses from shoplifting it is best that they be familiar with common tactics. Review the list in the text and attempt, with the help of the class, to add to it.
What can be done to prevent shoplifting?	Ask a local security company to provide a guest speaker. The speaker can use the list of anti-shoplifting suggestions provided in the text as a basis for the discussion. Encourage the speaker to use "real life" examples of theft and theft-prevention measures.
How should shoplifters be apprehended?	Lead the class in a discussion about the wisdom and methods of confronting shoplifters.
3. DETERMINE PROCEDURES THAT CAN BE USED TO REDUCE THE AMOUNT OF LOSSES FROM INTERNAL THEFT	
How can internal theft be handled?	Lead the class in identifying some of the main causes for bad feelings toward the business or business owner. Then, have them practice human resource management by suggesting ways to remove these causes of bad feelings.
How do employees steal and how can it be controlled?	Review the list in the text of procedures to effectively control internal theft.
What is vendor theft and how can it be reduced?	Explain why vendor theft is considered an "insider" crime.
4. IDENTIFY PROCEDURES THAT CAN BE USED TO REDUCE THE AMOUNT OF BAD CHECK OR COUNTERFEIT CURRENCY LOSSES	
How can risk of losses from bad checks be reduced?	Discuss with the class the ramifications of losses due to bad checks. Create a fictitious business and with the help of the class design a check-cashing policy for the business. Encourage creativity when outlining the details of the business (e.g., demographics of neighborhood, previous policies, etc.)

Objectives	Teaching Suggestions
How can businesses be protected from counterfeit currency?	Contact your local police department for information on the subject of counterfeit currency.
5. DISCUSS HOW TO SECURE A BUSINESS PREMISES AGAINST BURGLARY AND ROBBERY	
Which businesses are most vulnerable to burglary and robbery?	Ask the students to identify businesses in your area that they believe to be at-risk for burglaries or robberies. Have them state the rationale for their choices.
How can a business be protected against robbery?	Lead a discussion about the level of effectiveness of each of the anti-robbery suggestions listed in the text. Provide the class with details describing a fictitious small business that they are trying to protect from robbery. Divide the class into work teams and task them with compiling their own lists of protection practices that they feel would be most effective.
How can the business be protected against burglary?	You may wish to invite a representative from your local law enforcement agency, or private security company, to speak on the subject of preventing burglaries.
6. DISCUSS HOW ACCIDENTS AND LAWSUITS CAN BE PREVENTED	
How can accidents and lawsuits be prevented?	Discuss ways a business might determine what actions are "reasonable and prudent" in creating a safe work environment. You may want to introduce the Occupational Safety and Health Act (OSHA) here.
7. LIST THE DIFFERENT TYPES OF BUSINESS INSURANCE POLICIES AVAILABLE	
What are the types of insurance?	Divide the class into work teams. Assign each team one of the types of insurance listed in the text. Using outside sources, each team should produce a group report of approximately two pages in length. Each team can then share its' findings with the entire class.

MODEL ASSESSMENT ANSWERS

1. Risk management includes all activities designed to avoid or reduce the possibility of loss and lessen its impact when it occurs.

2. Small business owners are sometimes reluctant to prosecute shoplifters because of the fear of false arrest and/or defamation of character claims.

3. A method to reduce or prevent "ticket switching" is to use tamper-proof gummed labels that rip apart when an attempt is made to remove them.

4. Shrinkage is a result of merchandise leaving the store without payment. Shrinkage can result from both internal (employees, vendors, etc.) or external (burglary, shoplifting) sources.

5. The term NSF refers to 'Non-sufficient funds'. These checks are most often handled by business owners by simply calling the customer. There is usually a charge to the issuer for an NSF check.

6. A check verification system can electronically inform the business owner of a history of bad checks. In these cases, the owner would simply refuse the check, thereby eliminating the risk completely.

7. Vendors are the suppliers of a business. One type of vendor theft occurs when a delivery person (vendor) leaves less product than signed for. Another type of vendor theft occurs when easy access to back doors and stock rooms provides the opportunity for the vendor to steal from the owner's stock.

8. A fidelity bond would be purchased if there was a risk of insider dishonesty such as embezzlement. A fidelity bond provides coverage against such losses. It should be considered if large amounts of money are handled or company assets have been delegated to others in the business. A maximum amount payable is usually prearranged by the insurer.

9. Continuation life insurance would most likely be purchased if there are partners or employees that are essential to the managing of the business. Should any of these key figures die or become disabled, a benefit would be paid. Often, in the case of partnerships, this cash benefit is used to buy the shares of the deceased or disabled partner from the heirs.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

Support for **PACE, Third Edition** provided in whole or in part by:

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Center on Education and Training for Employment
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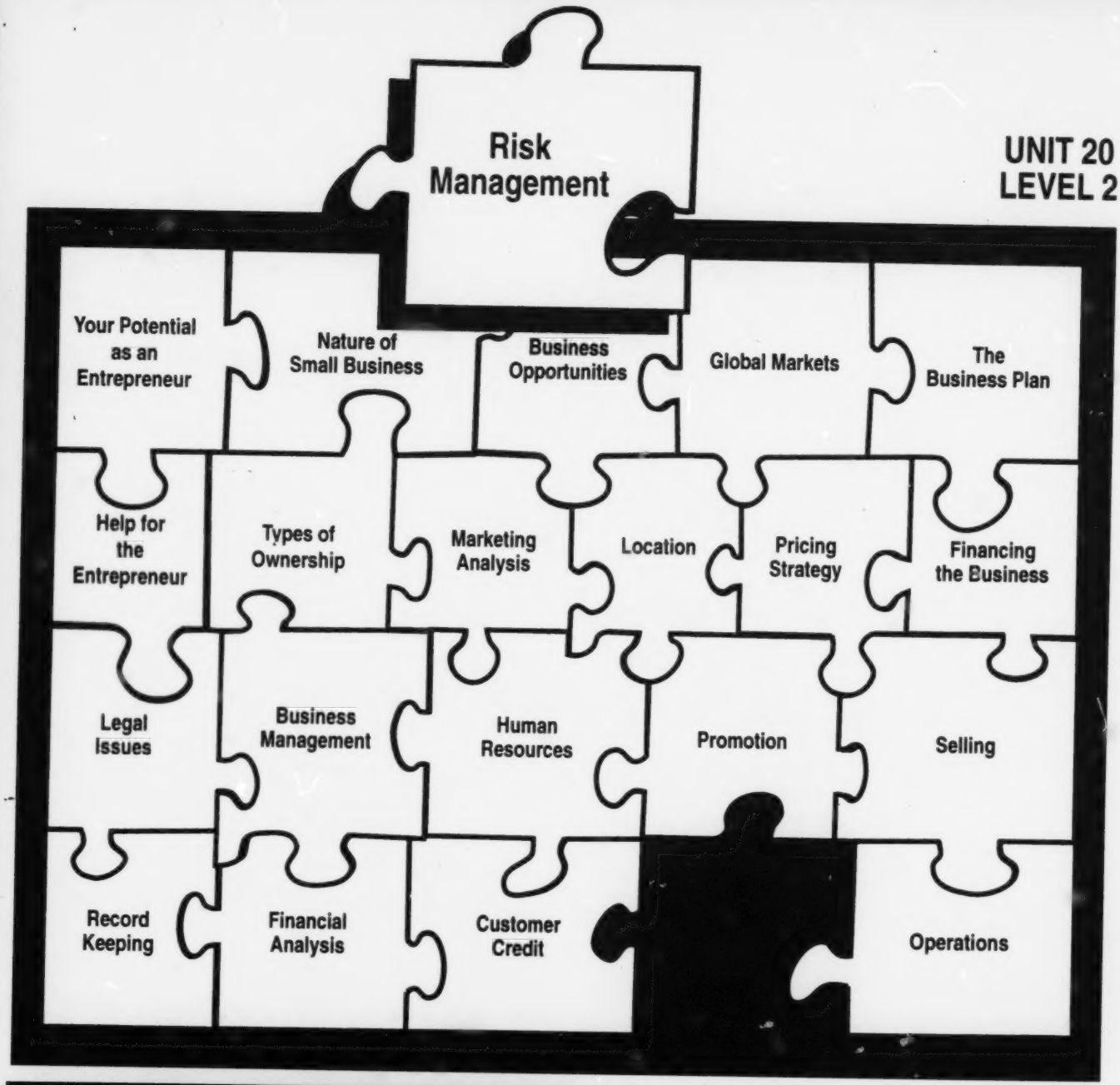

UNIT 20
LEVEL 2

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION
AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

RISK MANAGEMENT

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1:

   - Discuss the importance of planning to minimize risk.
   - Define areas of risk for the entrepreneur.
   - Explain preventive measures that can be taken by entrepreneurs.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Bad check losses
Burglary
Business continuation life insurance
Business interruption rider
Casualty insurance
Counterfeit currency
Embezzlement
Extended coverage endorsement
Fidelity bonds
Fire insurance
Forgery
Internal theft
Key person insurance
Liability insurance
Post-dated check
Product liability insurance
Risk management
Risk manager
Robbery
Shoplifting
Shrinkage
Surety bonds
Vendor theft
Workers' compensation

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RISK MANAGEMENT

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- explain the responsibility of the entrepreneur in risk management,
- identify various protective measures that can minimize shoplifting,
- determine procedures that can be used to reduce the amount of losses from internal theft,
- identify procedures that can be used to reduce the amount of bad check losses,
- discuss how to secure business premises against burglary and robbery,
- discuss how accidents and lawsuits can be prevented, and
- list the different types of business insurance policies available.

WHAT IS THIS UNIT ABOUT?

Once a business is formed, it is important to protect it against the many problems and situations that might slow its growth. Some entrepreneurs lose large amounts of money each year simply because they do not know how to protect their businesses. The entrepreneur must be able to identify the risks that the business faces and take appropriate preventive measures to minimize losses from those risks.

The unit focuses on identifying the most common risks faced by small businesses. The most common types of business crime are described, and procedures to minimize losses from these crimes are identified. In addition, the most common types of business insurance are described.

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WHAT IS RISK MANAGEMENT?

Entrepreneurs should know how to protect their businesses and personal assets from losses caused by the risks they face. Business owners should realize that the catastrophic effects of an accident, such as a fire, could wipe out their business and their own financial resources. Therefore, every entrepreneur should become familiar with *risk management*, which includes all activities to avoid or reduce the possibility of loss and lessen its impact when it occurs.

In most small businesses, the owner must assume the role of risk manager until the firm grows enough to have the job assigned to another staff member. Although most entrepreneurs cannot become experts in all the facets of risk management, they should be able to design a protection plan for their businesses based on the risks they have identified.

Small business owners must be concerned with protecting their businesses against crime and other events that could harm their financial well-being. Managing risk involves more than installing better locks on doors, placing convex mirrors and TV cameras around the store, or purchasing insurance. Risk management must include all the procedures and activities established to control risk. The business owner must protect the business against natural disasters and lawsuits brought against the business by employees, customers, or other individuals. In addition, he or she must guard against losses from crimes such as shoplifting, bad check losses, employee theft, embezzlement, vendor theft, robbery, and burglary.

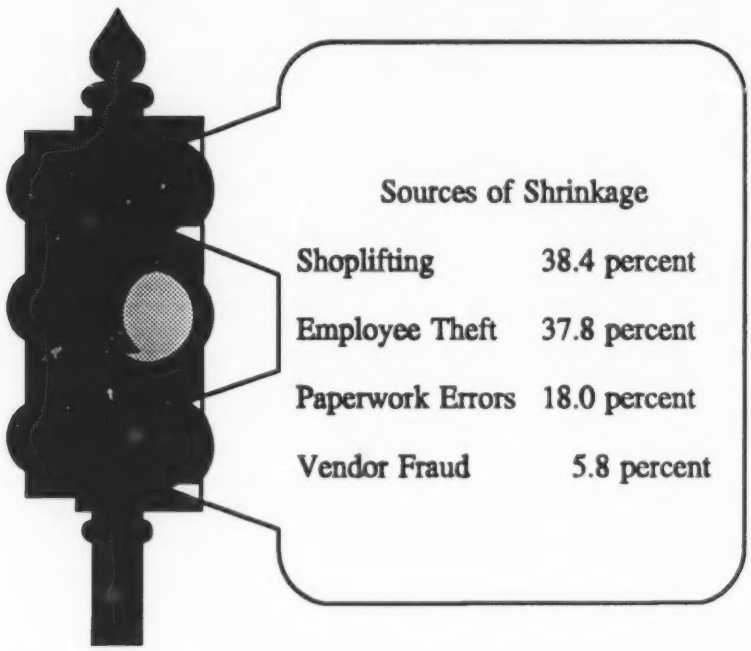
WHAT ARE THE DUTIES OF A RISK MANAGER?

Risk management activities are performed continuously. Frequent reviews of the kinds of risk the entrepreneur faces are necessary to support a sound risk management program. Many entrepreneurs find the following task list helpful as they identify the risks they face and develop an effective risk management program.

- Walk through the business/plant on a regular schedule, talk with key personnel, and make note of any unsafe practices or conditions.
- Review financial statements to determine which assets should be insured.
- Identify all potential causes of loss.
- Estimate dollar amounts for potential losses.
- Determine how to handle potential losses. Identify losses that should be covered by insurance and those that can be reduced or avoided.
- Design and implement a risk management program. Involve all employees in its development and implementation.
- Reevaluate existing insurance policies as well as all other parts of your risk management program on a regular basis.

Entrepreneurs should not risk more than he or she can afford to lose; yet, they should not over insure the business. Careful analysis of potential losses will allow the entrepreneurs to insure only those items that are financially significant.

Entrepreneurs need to develop crime prevention programs to reduce risks and protect their assets. However, no crime prevention program will prevent all criminal acts. Therefore, the entrepreneur can only hope to minimize their occurrence and severity.



WHAT CRIMES MOST OFTEN CAUSE LOSSES FOR SMALL BUSINESSES?

Each year, small business profits are substantially reduced by various types of crime. Shoplifting, customers passing bad checks or counterfeit currency, vendor theft, burglary, and robbery all lead to losses for the firm. Business owners also face losses from inside their firms. Employee theft, embezzlement, and improper cash handling by employees can lead to losses.

HOW DOES SHOPLIFTING AFFECT SMALL BUSINESSES?

Although some loss is inevitable, the business owner must manage the loss if the profitability of the firm is to survive. Shoplifting, or theft of merchandise by customers, is one of the most serious crimes facing all

retail businesses. Shoplifting costs over $8 billion annually. On average, losses run between 2 and 15 percent of sales. In fact, some security analysts claim that one out of every three small business bankruptcies can be attributed to shoplifting losses.

Developing a shoplifting prevention program is difficult because of how widespread the crime has become. No single group of the population performs the majority of shoplifting. However, there are some statistical trends. Shoplifters are 20 percent more likely to be female than male, and one survey of teenagers revealed that 70 percent of them had some shoplifting experience. In fact, as many as 1 customer in every 10 may be shoplifting. By their sheer numbers, amateur shoplifters, rather than professionals, account for most shoplifting losses.

Because they may be unable to afford more sophisticated protection devices, small retailers are more vulnerable than larger retailers to shoplifters. Also, small firms have been more hesitant to prosecute shoplifters because they may be related to or friends with important customers. Even though convictions occur at a rate of 95 percent, time-consuming court proceedings may represent a financial loss to the small business owner.

WHAT ARE THE MOST COMMONLY USED SHOPLIFTING TECHNIQUES?

To develop an effective shoplifting prevention program, entrepreneurs must be aware of typical shoplifting methods. Employees must also be provided training to detect these commonly used theft techniques. In fact, alert, watchful, and well-trained employees may be the best deterrent against shoplifting.

- The most common shoplifting method is to conceal the merchandise in a personal item such as a handbag, shopping bag, briefcase, or closed umbrella. Baby carriages and strollers have also been used successfully by shoplifters to conceal merchandise. Professional shoplifters sometimes use boxes with fake bottoms.

- The second most common method is to conceal the merchandise in clothing. Coats folded over arms or clothing with large pockets are typically used.

- Another technique is the switching of price tags. Computerized bar codes on the product's package is one way to combat this maneuver. Cashiers must also be knowledgeable of store products and typical prices and be alert for items with inappropriate prices. To prevent "ticket switching," you might also want to consider using tamper-proof gummed labels that rip apart when an attempt is made to remove them or using hard-to-break plastic string tags.

- In apparel stores, the use of fitting rooms by shoplifters allows them to walk out of the store with merchandise concealed under their own clothing.

- Pairs and groups of shoplifters will often work together to divert the attention of store personnel. For example, in a jewelry store, an accomplice could distract the salesperson while theft is made by sleight-of-hand.

- After shoplifting merchandise, some thieves even try to return the item for a refund. Store managers should insist on receipts to accompany returns to prevent the acceptance of merchandise stolen from other stores as well as their own.

WHAT CAN BE DONE TO PREVENT SHOPLIFTING?

No retail business can afford to leave itself unprotected against shoplifting. Procedures and practices to deter or prevent shoplifting should be implemented. Some techniques to prevent these losses are presented in the following list.

- Comprehensive records and a carefully managed inventory control system are mandatory. Records of sales, purchases, and inventory are tools that should be used to determine if merchandise is disappearing from the store without payment. Records should be examined to detect high shrinkage areas. Then strategies should be developed to curb theft in that department. *Shrinkage*, or merchandise shortages, should be measured frequently. Many small businesses do not measure shrinkage often enough to have a preventative impact on theft.

- Signs should be posted in the business stating that shoplifters will be prosecuted. This must not be an idle threat because businesses that build a reputation for prosecuting shoplifters find that such losses diminish substantially.

- Unused checkout lanes should be kept closed, and the store or department should never be left unattended.

- Small expensive items should be displayed in an enclosed, locked case.

- Entrances to fitting rooms and restrooms should be observed constantly by store personnel. Many store owners limit the number of items taken into fitting rooms.

- A sufficient number of salespeople should be maintained on the store floor at all times. Fast customer service is recommended as a deterrent to shoplifting. Honest customers generally appreciate the quick service, whereas the shoplifter does not want the help. Also, attentive service will likely force the shoplifter to move to another store.

- The interior arrangement of the store should provide maximum visibility.

- Large, convex mirrors placed in the corners of the business will allow salespeople to watch the aisles more carefully. Two-way mirrors placed strategically can also be used to detect shoplifting.

- In recent years, marking merchandise with sensitized tags has proven to be a useful deterrent to shoplifting. The tags cannot be removed by a shoplifter without damage to the merchandise. Also, trying to leave the store without having the cashier remove the tag will trigger an alarm.

- Larger stores employ closed-circuit TV cameras to combat shoplifting.

- Some stores have developed a warning system so that all employees can be alerted when the presence of a shoplifter is suspected.

HOW SHOULD SHOPLIFTERS BE APPREHENDED?

Some small business owners shirk from apprehending and prosecuting shoplifters because of the fear of being accused of false arrest or defamation of character. Such reluctance, however, may encourage shoplifting.

Local police should be consulted to determine what local law permits when confronting and detaining shoplifters. Some states allow apprehension of the shoplifting suspect inside the store if the retailer can prove intent. Intent to shoplift may be shown if the customer has taken the item past the cash register or concealed the item. However, apprehension of the shoplifter outside the store strengthens the case.

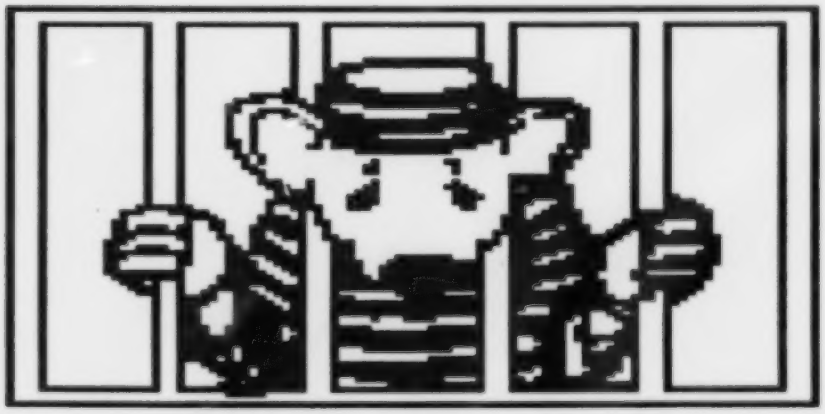
When apprehending shoplifting suspects, never touch them because the contact could be construed as roughness. When approaching the suspect, say, for example, "I believe you have some merchandise in your bag which you have forgotten to pay for. Would you please come back to my office to straighten out this matter?"

At many retail stores, employees are instructed never to accuse customers of stealing but to keep the shoplifter in sight and alert the owner or manager. When a shoplifter is suspected, the following information is needed:

- What merchandise was taken?

- From what location in the store was the merchandise taken?

- How was it taken?



- Where is the merchandise concealed?

In addition to shoplifting, small businesses also face losses from customer crime in two other areas—accepting *bad checks* and accepting *counterfeit currency*.

HOW CAN RISK OF LOSSES FROM BAD CHECKS BE REDUCED?

Most businesses accept a check for payment of goods and services. However, they face the risk of loss by accepting "bad checks." Approximately 1.75 percent of all checks written to retailers in 1992 were bad checks. Of those checks, 28 percent were fraudulent whereas the remainder were checks written on accounts which had insufficient funds to cover them. These losses can be reduced if the proper policies, including sound step-by-step procedures for accepting checks, are established.

These policies and procedures must be designed to fit the specific needs of the store and the customers. By accepting checks, the business is relying on most of them being good. To avoid the risk of losses from bad checks, the business owner may decide not to accept any checks. However, it should be realized that a large number of customers make purchases only by check or credit card. Because of this fact, the business may lose a large number of sales with a "no checks" policy.

Businesses can use two methods to help reduce losses from bad checks. The first is to establish *check-cashing policies*. The second is to install equipment to help identify and stop people who often pass bad checks.

All check-cashing policies should rely on a number of basic practices.

- Store personnel should examine the parts of the check that may indicate it is bad. These include the company or customer name being rubber-stamped, poor spacing, erasures, or the signature being illegible. Be sure the check is dated with the month, day, and year. Never accept a *postdated check*. Do not take a check that is more than 30 days old, or worse, one that is not dated. Finally, make sure the amount on the check agrees with the amount written out.

- The second step is to ask for identification. Is the customer who he/she claims to be? Legitimate forms of signed identification include a valid driver's license and national credit cards. Many businesses ask for two pieces of identification. One should include a physical description of the owner, and the other is usually a major credit card.

After the check has been inspected and suitable identification presented, the customer's check can be compared against a list of bad checks that that store has accepted in the past.

In addition, policies should be developed in three specific areas. The first is whether or not to permit customers to cash checks for more than the amount of purchase. If this practice is permitted, a limit of the amount will need to be set.

Another policy is whether or not to cash payroll, social security, welfare, and similar types of checks. Stores that accept these checks anticipate establishing a solid group of repeat customers. But, at the same time the business is exposed to higher risks.

Finally, a policy dealing with the prosecution of bad check-passers should be determined. What course of action will the business owner take to recover losses from bad checks? This usually includes notifying the proper law enforcement agency, signing a complaint, and prosecuting bad check-passers if and when they are caught. The problem may continue unless the commitment is made to prosecute. Such a commitment, however, will mean time away from your business when cases come to court.

A bad check can be the result of anything from a careless mistake to a well-planned forgery, but the result is always a headache for the business owner. If the average dollar amount of a bad check is over $50, it only takes a few bad checks each month to turn a profit picture sour.

Careless customers who cannot keep their checkbook records balanced present you with a special problem. If the business accepts such a bad check, it is returned by the bank marked "NSF"—*non-sufficient funds*. A business may sustain permanent losses from fraudulent checks, but business owners can collect on NSF checks by simply calling the customer. Most businesses usually charge the customer a fee for NSF checks.

Some businesses turn over bad checks to a collection agency, despite the fees they charge. Such collection costs are, however, an additional drain on profits.

Finally, equipment is available to help deter chronic bad-check passers. These include the following:

- New computer cash registers can compare a customer's checking account number against a list of bad checks accepted by the business in the past. This system, however, will detect only persons who have given the store bad checks before.

- A check verification service is available in most states. A business that subscribes to such a service, notifies the service electronically of the checking account number of the customer or his or her driver's license number. Within seconds, the store is notified whether or not the customer has a history of passing bad checks. Check verification services usually charge only a few cents for each verification.

- Some stores have even installed fingerprint equipment that places a customer's thumb print on the back of the check. Some store owners, however, have hesitated to use such devices, fearing they may turn away customers. More expensive photographic equipment takes a picture of the customer cashing the check. To find out more about check-protection equipment, look in the Yellow Pages for companies selling these devices. You can also talk to neighboring business owners to find out what policies and procedures work best for them.

  Even the most cautious procedures and the most up-to-date equipment may not overcome the problem of professional bad check passers who may be equipped with machines that duplicate and alter

stolen checks and official identification. Remember, a business is under no obligation to accept a check. This is a courtesy and service extended to customers.

HOW CAN BUSINESSES BE PROTECTED FROM COUNTERFEIT CURRENCY?

Every precaution should be taken to prevent the acceptance of counterfeit bills by business employees. Each year millions of dollars worth of counterfeit currency is seized by the Secret Service, and the most common bills counterfeited are $10 and $20. Large metropolitan areas remain the major bases for counterfeit operations because of a larger number of potential victims, but smaller towns and cities are equally vulnerable. No one is exempt.

When employees suspect that a bill is counterfeit, compare the bill with a genuine bill of the same denomination. Look for differences. Portraits on a good bill look lifelike and have distinct hairlines. Bad bills are darker and less distinct. Paper of a good bill is also distinctive with visible, interspersed red and blue fibers. Bad bills are usually printed on bond paper with no colored fibers or with red and blue lines printed on the paper. Dollar amounts should correspond with the proper portrait.

If possible, employees should be instructed to delay the passer, and the police should be notified. If the passer leaves, write down his or her description. Employees should also write their initials and the date on the bill; otherwise, handle the bill as little as possible to preserve any fingerprints. Place the bill in a protective cover and surrender it only to the police when they arrive.

WHAT IS VENDOR THEFT AND HOW CAN IT BE REDUCED?

In addition to theft from customers, businesses also face possible theft by their vendors. *Vendor theft* occurs when delivery persons leave less than the number indicated on the delivery form that the business owner or an employee signs. For example, a delivery of bread was supposed to be 200 loaves. The business owner was rushed and simply signed for them without counting them. There were actually 190 loaves. The business owner realized too late that he/she had been cheated. Delivery persons take items that they do not deliver and use or sell them.

Procedures to reduce such theft include the following:

- Check all deliveries carefully.
- Assume nothing about the contents of the delivery.
- Check to verify any shortages or overages immediately.
- Have the delivery person sign the bill noting any differences.
- If possible, have a specific area and time of day for all deliveries. Most vendor theft occurs during peak business hours when the owner and employees may be

rushed. They may feel they cannot take the time to make a physical count of the merchandise delivered.

Again, the key to reducing vendor theft is control. Policies should be established for checking deliveries from vendors and the business owner should make sure that employees follow those policies on *all* occasions.

WHICH BUSINESSES ARE MOST VULNERABLE TO BURGLARY AND ROBBERY?

Burglary and robbery account for only a small part of all business losses. However, burglars and robbers still present a danger for the small business owner. Some businesses are more vulnerable than others because of their location or the type of merchandise being sold. Stores in high risk crime areas are particularly susceptible as are stores with valuable inventories, such as jewelry or liquor. Businesses that keep large amounts of cash on hand are also lures to potential robbers. In addition, stores that remain open 24 hours a day or late into the night have greater chances of being robbed.

HOW CAN A BUSINESS BE PROTECTED AGAINST ROBBERY?

A business can never be protected completely against robbery, but some practices help reduce the chances of robbery. Such practices include the following:

- Cash should be emptied from registers throughout the day. Cash registers crammed with bills can be tempting to a robber. Cash should be kept in a strong safe that is both fire and burglar resistant. It should be locked at all times.

- Bank deposits should be regular and frequent. Many business owners do this during the day when there is more traffic; however, carrying large sums of money is still a risk. If possible, the hours for bank deposits and the routes to the bank should be varied. Cash should not be carried in obvious containers.

- If the business can afford the expense, an armored car service should be used to make bank deposits.

- Large amounts of cash should not be kept in the building overnight. Instead, arrangements with the bank for night deposits should be made. This procedure allows the business owner or designated employee to make a deposit at the bank after it has closed. The bank issues a key to the "night depository" drop and special bags for the deposit that can only be opened by a key. One key is held by the business owner, and a duplicate is held by the bank.

- At night, lights should be on at the business both inside and outside. Lights help patrolling police spot robbers, and causes potential thieves to think twice before attempting to rob the business.

- Policies should be established for all personnel to follow in the event of a rob-

bery. Employees should be trained to remain as calm as possible if confronted by a robber. They should be advised to cooperate with the robber in every way. In general, nothing should be done to provoke a robber's use of firearms. Nevertheless, a silent alarm should be triggered if possible.

- Signs should indicate that a security system is in place. Signs should also tell customers that the cashier cannot unlock the store safe. Many businesses keep only minimum cash amounts in register drawers and have signs which tell customers of that practice.

- Electronic devices such as alarm systems or surveillance cameras, should be installed if at all affordable. They act as powerful deterrents to both robbery and burglary.

HOW CAN THE BUSINESS BE PROTECTED AGAINST BURGLARY?

Protecting the business against burglary begins with a physical inspection of the business. The business owner should ask, "How could a burglar enter my business?" Then, he or she should take steps to correct the problem areas. The following policies and deterrents should minimize burglary losses.

Protection against burglaries begins by securing all points of entry. Secure locks should be installed on all doors and windows. Since a cheap lock can be opened easily with a knife or plastic card, security analysts recommend a sturdy deadbolt and a pin tumbler cylinder. The bolt should be as long as possible so it cannot be released if someone attempts to pry the door open. A locksmith should inspect the premises and prescribe the safest type of lock for the business.

A good key control plan is as important as a secure lock. Locks are only as good as the care you take of the keys. Keys issued to employees should be stamped "Do Not Duplicate." Also locks should be changed if an employee leaves or quits without returning the keys.

Windows provide burglars with easy access to the building's interior. Because merchandise is displayed in them, windows at retail store are susceptible to "smash-and-grab" thefts. Installing tempered or laminated glass that can resist such blows is recommended. Iron screens, grills, or bars placed outside windows and securely fastened at night can also keep out thieves. Many grills and screens can be removed during the day so as not to detract from the merchandise being displayed. Many ironwork companies specialize in designing attractive grills that both dress up the building's decor and foil burglars. Transoms, skylights, ventilator shafts, air vents, and utility access covers should also be protected with steel mesh screens or bars. Because they are often shielded from view, these entrances are especially inviting routes for burglars.

Security specialists advise business owners to clear their grounds of overgrown shrubbery, especially near windows or entrance ways that offer burglars safe places to hide. All ladders, ropes, and tools that could help a burglar gain entry into your business

should be locked up—not left outside the building.

Illuminate the building's exterior and interior with lights to discourage burglary attempts. Most burglars prefer working at night because the darkness conceals their activities. Keeping the business well lit, will help patrolling police identify suspicious persons.

In high crime areas, the business owner may wish to consider hiring guards who either stay in the building for a certain amount of time or who check the building at regular intervals. For many small businesses, such services can be expensive. However, by pooling resources a group of businesses can greatly lower the cost for each individual. Watchdogs could also be purchased or rented. They present the intruder with an immediate physical threat, and for some types of businesses provide effective security.

If locks, screens, and other physical deterrents do not provide enough protection, the business owner may consider installing an alarm system. Alarm systems that are on the market should be carefully investigated. Too many entrepreneurs invest large sums of money in elaborate alarm systems that provide too much protection. Security specialists and local law enforcement agencies can provide information about the most reputable alarm companies in the area. By securing bids from several companies, the entrepreneur is better able to select the one that best fits the budget and one that is the most reliable.

HOW CAN INTERNAL THEFT BE HANDLED?

In addition to losses from crimes committed against the business from people outside the firm, the entrepreneur must also recognize the potential losses due to *internal theft* by his or her own employees. Each year, internal theft substantially cuts the profits of small businesses. Some reports indicate that theft by employees accounts for nearly 38 percent of the losses suffered by small businesses. *Embezzlements* by trusted employees have also driven many established firms into bankruptcy.

The first step in preventing internal theft is to do a good job of screening job applicants. Check with previous employers of applicants and have applicants account for lapses between jobs. Lie detectors are used by some firms to test the trustworthiness of applicants. However, the tests are expensive and their validity is sometimes questionable.

There are two specific reasons that employees steal:

1. To punish the employer for real or imagined grievances

2. To take advantage of a permissive view of what constitutes theft.

The first reason is based on feelings of boredom, being underpaid, not respected, or underutilized. Such feelings may lead to theft because the employee asks, "How else can the employer be punished?"

The second reason is corrected by making sure that employees know what constitutes theft. For many of them, taking low-cost items, like pens, tapes, or stamps, may not be viewed as theft, but it is. Theft of small items must be controlled because, over time, substantial losses can result for the firm.

Preventing major employee theft is chiefly a matter of establishing effective procedures and removing the main causes for bad feelings toward the firm. Each employee should be told that his or her work is respected and valued by the firm. The business owner should consider job enrichment activities. Happier employees are less likely to steal. Employers can show employees that they expect honesty at all times. They can set the example with their own behavior. For example, overshipments should be returned promptly, and even small supplies should not be taken from the business for personal use.

HOW DO EMPLOYEES STEAL AND HOW CAN IT BE CONTROLLED?

Internal theft often occurs when employees steal petty cash funds or steal cash payments received in the mail. Some employees steal funds by cashing company checks made out for fictitious bills from nonexistent vendors. Other employees steal company supplies, equipment, or merchandise. Some employees take kickbacks, split commissions, or make other deals with suppliers or customers. In retail stores, employee theft can take the form of employees ringing up items for friends or relatives at less than the ticketed price.

The following procedures have been used effectively to control internal theft:

- To deter embezzlement, company records and accounting books should be audited regularly by a competent accountant.

- Spot checks will ensure that cashiers are ringing up all sales and at the correct prices. At no time should an employee be allowed to ring up his or her own purchases.

- Trash receptacles should be inspected from time to time to make sure that no merchandise has been placed in them for later retrieval.

- Employee packages should be inspected leaving the premises.

- Loading and unloading procedures should be observed. Make sure all items ordered are received. A responsible person should be assigned to load outgoing shipments to ensure no more goes out than has been ordered by customers.

- Truck loading should be spotchecked to see that no stolen goods are on the truck.

- Many companies will not allow employees to park in the receiving area. The receiving door should be shut and locked when not in use. Many firms have installed alarms that ring each time the door is opened.

- Employers should tell employees that they expect honesty from them and that theft will not be tolerated.

- In hiring, employers should be thorough in checking the honesty and character of job applicants.

- The devices used for detecting shoplifting can also be used to detect employee theft—convex mirrors, two-way mirrors, and closed-circuit TV.

HOW CAN ACCIDENTS AND LAWSUITS BE PREVENTED?

In addition to crime prevention, business owners must also protect their firms from possible lawsuits from customers or other individuals. Lawsuits by customers who fall in a business are the most common, and probably the leading liability claim that most businesses face. On-site accidents will probably be caused by one of these reasons:

- Customers and employees tracking in rain

- Slippery floors after waxing or mopping

- Cluttered aisles caused by restocking activities

- Unmarked changes in floor levels

Everything reasonable and prudent should be done to keep businesses safe. Court decisions have gone against business owners when it was proven that a dangerous condition existed when it should have been spotted during routine inspections. Although most lawsuits for falls are settled out of court, store owners still incur attorney's fees, and they or their insurance company must pay the settlement amounts.

The following suggestions should help reduce accidents from occurring.

1. **Keep floors dry**. Quickly mop rain water tracked in and put up caution signs when floors are wet. Many firms install non-skid mats at entrances, but as effective as mats may be, they must be properly maintained. For example, corners of old mats may curl up causing customers to trip over something that was intended to reduce accidents.

2. **Schedule maintenance properly**. You may be asking for trouble by having workers clean or wax floors during business hours. Also, recent court decisions have gone against businesses that have improperly applied floor wax.

3. **Remove clutter in aisles**. Boxes placed in aisles while employees are restocking shelves can be dangerous and cause customers to fall.

4. **Conduct regular inspections**. Before issuing a policy, many insurance companies will audit the business closely for potential sources of physical injury to employees, customers, neighbors, or others. Have someone assigned to look regularly for hazards such as inadequate lighting, improperly cleaned floors, or clutter in the aisles. Where floor levels

change, reflective tape should be used. Above all, keep written records.

5. **Educate employees**. Use meetings, bulletin boards, and posters to stress safety messages. Make sure that employees know how to handle accidents if they do occur. Keep records of employee education programs that you conduct.

Following all these guidelines will not eliminate all accidents. When someone falls in the business, make sure the person is comfortable, then call for medical assistance. If a trip to the hospital is necessary, call an ambulance rather than using a company vehicle or a personal car. Doing so may open the business to other liability claims if something goes wrong.

After taking care of the person who has had the accident, prepare a written description of conditions surrounding the accident. Take photographs of the accident site, if possible. Determine who witnessed the accident, and take statements from them. Determine what caused the accident and check records to determine when the site was last inspected for hazards.

WHAT ARE THE TYPES OF INSURANCE?

Entrepreneurs purchase insurance in the event that problems occur. In general, most firms should consider insurance coverage for the situations described below. Each type of insurance provides a means of managing risk in the business.

Fire insurance is one of the most common types of insurance to be considered. If the entrepreneur is renting or leasing, he or she should find out what is covered by the owner's fire insurance. The contents of the business, such as inventory, fixtures, and equipment will probably need to be considered. In most situations, the fire insurance policy should be supplemented by an *extended coverage* endorsement that insures against loss from windstorm, hail, explosion, riot, and smoke damage. Purchasing fire insurance does not take the place of active fire prevention measures. Good housekeeping and maintenance, use of smoke and heat detectors, and the availability of fire extinguishers are as important as insurance. Some businesses have established a no-smoking policy to stop the chance of fires.

Fidelity bonds provide coverage against financial loss caused by dishonesty, such as embezzlement. This type of protection should receive careful consideration if the entrepreneur has delegated authority to other employees to handle large amounts of money or company assets. Most companies offering fidelity bonds state a maximum amount payable for a loss.

Surety bonds cover the failure of one person to perform a legal obligation to another, such as not constructing a building as promised. Before issuing such a bond an insurance company would check the reputation, credit rating, and resources of the principals involved. The company's competency to do the work is also assessed.

Casualty insurance protects a business from specific loss situations. For example, businesses can purchase casualty insurance that provides protection from losses caused by burglary, robbery, theft, and larceny. Some

entrepreneurs also purchase a *business interruption rider* to provide some income if a business is closed down because of other damages. For example, while rebuilding after a fire, the entrepreneur must continue to pay salaries to key employees and to make loan payments.

Liability insurance protects the business against claims arising from personal injury or property loss. Liability coverage is one of the most important protections the small business should have. Such insurance protection covers the firm against customers having accidents at the business and then bringing a lawsuit against the firm. Lawsuits can tie up the entrepreneur's time and assets, and they can even affect credit availability. Another form of liability insurance is *product liability insurance* which protects a manufacturer against claims that the product is unsafe. This type of insurance is often prohibitively expensive.

Workers' compensation is another type of insurance which provides medical care, death or dismemberment benefits, or income payments for employees who are injured or killed on the job. Specific benefits payable to the worker are determined by the state, and some exemptions from workers' compensation coverage exist in almost all states. For example, employers of a small number of employees may be exempt.

Key person insurance covers the firm if partners or employees essential to managing the business become disabled or dies. Business continuation life insurance is used by many partnerships to provide cash on the death of one owner. The cash is used to buy the partner's share of the business from heirs.

These are only the major coverages that many small businesses have. Every business is different, and insurance needs will vary. The entrepreneur should consult a reliable insurance agent to develop a complete insurance plan that will meet the specific needs of the business. Insurance rates also vary. Entrepreneurs should shop around before deciding what to purchase. If the entrepreneur is a member of a trade association, special policy rates may be available from a group insurer.

Protecting the business is a complex issue that requires planning. By not taking the necessary steps to protect the business adequately, the entrepreneur could lose all that he or she has worked to build.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Many businesses are purchasing special equipment and fixtures to combat crime. Read the following business description carefully. For each of the following areas, list equipment or fixtures that could be used in crime prevention by Johnny Ames.

Shoplifting

Robbery

Burglary

Internal Theft

Johnny Ames is planning to open a jewelry store in a large shopping mall in a city of approximately 185,000 people. The store will open from 10:00 a.m. until 9:00 p.m. 6 days a week. The store contains selling space of 1,200 square feet with an additional 200 square feet of storage space. The store front faces the mall court, and there is a back door that opens to the parking lot. The store accepts cash, checks, Visa, Mastercard, and American Express for purchases.

B.

Entrepreneurs must be able to handle accidents that occur at their businesses. After reading the following situation, answer the questions which follow.

You are the owner of "Saveway Shoes." You have just sold a pair of shoes to Mrs. Anderson, a regular customer at your store. After paying for the purchase, she indicates that she is late for an appointment and walks away quickly. She turns the corner for the exit and falls. The sound of falling metal and breaking glass lets you know that it could be a serious fall. You run to Mrs. Anderson and see her lying unconscious on the floor. She has tripped over some display props near the exit. Mrs. Anderson has a small cut on her head but no other injuries are immediately observed.

1. What should you do now? Describe the steps that you would take.

2. Should you immediately take Mrs. Anderson to an area of the store where she will be away from other customers? Why or why not?

3. When Mrs. Anderson regains consciousness, what would be wrong with saying to her "Don't worry, our insurance company will take care of any medical bills."

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GROUP ACTIVITY

Work in teams of four to six. Have each team investigate one of the following risks or crimes that businesses face:

Shoplifting

Burglary

Robbery

Lawsuits from Liability Claims

Natural Disasters (tornados, floods, hurricanes, fires, etc.)

Each group is tasked with locating news articles concerning the occurrence of each risk or crime in their community.

Team members should compile their findings and develop a report about the impact of the risk/crime in their community. Have them make suggestions as to how the losses reported could have been reduced or eliminated.

CASE STUDY

Jake has opened a new business to sell men's clothing. His policies include the following:

1. No checks will be accepted.
2. No employee will be issued keys to the store.
3. Employees will not be hired before their references are checked.
4. Vendors will be checked in only before opening hours.

He has also decided to purchase the following equipment to deter crime:

1. An alarm system
2. Convex mirrors to be used throughout the store
3. Electronic price tags on garments

DISCUSSION QUESTIONS

1. Describe both the positive and negative impact of each policy and equipment purchase.
2. Would you suggest any changes? If so, describe them.

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ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. What is risk management?
2. Why are many small business owners reluctant to prosecute shoplifters?
3. What methods can be used to prevent "ticket switching" by customers?
4. What are the causes of shrinkage?
5. What do the initials NSF mean? Generally, how are such checks handled by business owners?
6. How can check verification services reduce the risk of bad check losses?
7. What is vendor theft?
8. Why would a business purchase fidelity bonds?
9. Under what situation would business continuation life insurance most likely be purchased?

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PACE

Unit 1. Your Potential as An Entrepreneur
Unit 2. The Nature of the Small Business
Unit 3. Business Opportunities
Unit 4. Global Markets
Unit 5. The Business Plan
Unit 6. Help for the Entrepreneur
Unit 7. Types of Ownership
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Unit 14. Human Resources
Unit 15. Promotion
Unit 16. Selling
Unit 17. Record Keeping
Unit 18. Financial Analysis
Unit 19. Customer Credit
⇨ Unit 20. Risk Management
Unit 21. Operations
Resource Guide
Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business